USAC

Universal Service Administrative Company

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October 3, 2005

Ms. Marlene H. Dortch
Secretary, Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

RE: Universal Service Administrative Company, Revision to the Methodology for Allocating Joint and Common Administrative Costs Among the Universal Service Support Mechanisms, CC Docket Nos. 97-21 and 96-45

Dear Ms. Dortch:

At its July 19, 2005 quarterly meeting, the Board of Directors of the Universal Service Administrative Company (USAC) approved certain changes to the method for allocating USAC common costs among the four universal service support mechanisms. USAC common costs include costs associated with the audit, legal, billing, collection, and disbursement functions for all of the universal service support mechanisms, as well as certain information technology and human resources charges that cannot be directly attributed to one of the universal service support mechanisms.

USAC's current cost allocation methodology (CAM) allocates costs based on the ratio of demand for each program to total Universal Service Fund (USF) demand.[1] Growth in the High Cost Support Mechanism in recent years has resulted in a larger allocation of common costs to that program and a reduction in the percentage of costs allocated to the Schools and Libraries program. To ensure the CAM is fair and equitable to each of the programs based on both administrative workload and program demand, and to create incentives to ensure efficiency in the administration of the programs, the Board of Directors approved a revised CAM. The revised CAM is weighted based 50% on program demand and 50% on percent of the total direct administrative cost of each program. The weighted CAM retains the equity inherent in the current program size allocation while increasing incentives for each program to control its direct administrative costs.

Pursuant to 47 C.F.R. § 54.702(l), USAC hereby files its CAM revision with the Commission. The effective date is January 1, 2006.

[1] *See* Letter from Robert Haga, USAC, to Magalie Roman Salas, FCC (Jan. 28, 2000).

We would be pleased to provide any additional information you may require and to answer any questions you may have about this matter.

Sincerely,

D. Scott Barash
Vice President and General Counsel

Enclosure

cc: Narda Jones, Chief, Telecommunications Access Policy Division, Wireline Competition Bureau

REVISIONS TO THE METHOD FOR ALLOCATING COSTS
Effective January 1, 2006

Definition of Apportionment Factors

Add the following factor:

Weighted Cost Allocation Based on Program Size and Direct Administrative Costs (WCAM) – Program size multiplied by the ratio of the direct costs for each program to the total direct costs for all four programs. The factor will be calculated at the beginning of the calendar year based on the direct costs and program size of the prior calendar year.

Common Expense Categories and Apportionment Method

Change the allocator as follows:

Accounting and General Financial Services – From Program Size allocator to WCAM allocator.

Audits - From Program Size allocator to WCAM allocator. Programmatic audits will continue to be directly assigned.

Billing and Collection - From Program Size allocator to WCAM allocator.

Director Officers (D&O) Liability Insurance - From Program Size allocator to WCAM allocator.

Legal and Regulatory - From Program Size allocator to WCAM allocator.

Payroll and Employee Benefits - From Program Size allocator to WCAM allocator.

Vendor Outreach - From Program Size allocator to WCAM allocator.

Miscellaneous – All other common costs that are not included above will be based on the WCAM allocator.

Assets and Liabilities

Assets and Liabilities that are common in nature will be allocated based on the WCAM allocator.